LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6307 | **NOTE PREPARED:** Jan 19, 2013
BILL NUMBER: HB 1375 | **BILL AMENDED:**

SUBJECT: Repeal of Petroleum Severance Tax.

FIRST AUTHOR: Rep. Koch | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: GENERAL | **IMPACT:** State
X DEDICATED
FEDERAL

STATE IMPACT	FY 2013	FY 2014	FY 2015
State Revenues		(2.0 M)	(2.2 M)
State Expenditures			
Net Increase (Decrease)		(2.0 M)	(2.2 M)

Summary of Legislation: This bill repeals the petroleum severance tax with respect to petroleum severed from the land after June 30, 2013.

The bill moves civil and criminal penalties concerning the petroleum severance tax to the criminal law. It provides that the penalty provisions apply to taxes imposed on petroleum severed from the land before July 1, 2013. It also provides that the penalty provisions expire July 1, 2017.

The bill requires the Treasurer of State to transfer the balance of the Oil and Gas Fund to the Oil and Gas Environmental Fund (OGEF). It also provides that certain permit fees are paid into the OGEF rather than the Oil and Gas Fund. The bill further provides that research and administrative expenses may be paid from the OGEF. It also removes the $1,500,000 cap on the balance of the OGEF and annually appropriates money in the OGEF.

Effective Date: July 1, 2013.

Summary of NET State Impact: This bill will eliminate the petroleum severance tax which generated $2.2 M in revenue during FY 2012. Approximately $1 M of the petroleum severance tax revenue has been used to support the regulatory operations of the Oil and Gas Division of the Department of Natural Resources (DNR).

Fund balance transfers required by the bill may also result in reduced permitting fees assessed on existing oil and gas wells. The bill requires the fund balance in the Oil and Gas Fund, approximately $2.9 M, to be transferred to the Oil and Gas Environmental Fund to be available for the administrative operations of the Oil and Gas Division. These funds should be sufficient to provide operating funds for the Division through the upcoming budget biennium. Ultimately, actions taken by the General Assembly will determine the fiscal impact of the bill.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR reports that minimal resources are dedicated to the administration of the petroleum severance tax.

DNR Division of Oil and Gas: The bill authorizes the Oil and Gas Environmental Fund (OGEF) to pay for the administration expenses of the oil and gas statutes and research expenses. This authority will allow the OGEF to be the source of appropriations for the operation of the Division of Oil and Gas. The elimination of the petroleum severance tax revenue would require the Department of Natural Resources to either reduce the expenditures related to the administration of the oil and gas statutes or to replace the funding with other sources of revenue. Approximately $1 M in petroleum severance tax revenue is used to fund the operations of the Division of Oil and Gas. The balance of funds remaining in the Oil and Gas Fund - approximately $2.9 M - that is required to be transferred to the OGEF on June 30, 2013, would allow DNR to delay adjusting the expense or revenues used to fund the operations of the Division of Oil and Gas for the biennium. Ultimately, actions taken by the General Assembly will determine the fiscal impact of the bill on expenditures.

Background: The Division of Oil & Gas does not receive funding from the state General Fund, but is funded by a dedicated fund (the Oil & Gas Fund) and federal funds. The Division operates on a current budget of approximately $1.6 M. The Oil & Gas Fund receives 70% to 80% of its revenue from the petroleum severance tax. Other sources of revenue for the fund include permit fees assessed when applying for a permit to drill for oil and/or gas and royalties and land lease revenues associated with the lease of state land for petroleum exploration and extraction.

Appropriations from the Oil and Gas Fund, which is also repealed by the bill, provide 81% of the current year budget for the Department of Natural Resources, Division of Oil and Gas. (About $1 M is from petroleum severance tax revenue.) The Division of Oil and Gas administers the oil and gas statutes regulating petroleum exploration and production operations including: well spacing, exploration, permitting, drilling, completion, production, and abandonment operations; underground injection of fluids for enhanced oil recovery or for production fluid disposal; and the underground storage of natural gas or other petroleum products. The Division currently has 18 full-time employees.

Explanation of State Revenues: The bill will repeal the petroleum severance tax which is assessed on liquid petroleum and natural gas. The tax is the greater of 1% of the market value of the petroleum or $0.03 per 1,000 cubic feet for natural gas and $0.24 per barrel of oil. (A barrel is equal to 42 gallons.) Because the tax is collected one month in arrears, impact of the repeal in the first year would be approximately $2 M.

Oil And Gas Fund Revenue Collections				
Year	**Severance Tax**	**Drilling Permit Fees**	**Land Lease Royalties**	**Total**
FY 2008	1,680,447	171,515	230,404	$2,082,366
FY 2009	1,475,326	155,921	215,089	$1,846,336
FY 2010	1,425,692	114,624	176,848	$1,717,164
FY 2011	1,825,364	106,350	313,756	$2,245,470
FY 2012	2,211,601	69,786	287,431	$2,568,818

Oil and Gas Environmental Fund (OGEF): The bill repeals authority for the Oil and Gas Fund and requires the Department of State Revenue (DOR) to deposit residual collections of the petroleum severance tax in the Oil and Gas Environmental Fund (OGEF). The balance of the Oil and Gas Fund on June 30, 2012, was $2,879,156. The OGEF is also designated to receive drilling permit fees.

Revenue associated with the lease of state DNR royalty payments and administrative expenses associated with the lease of state land for petroleum-related purposes that is collected by the DNR is also currently deposited in the Oil and Gas Fund. DNR has no statutorily specified requirement to deposit this revenue in the Oil and Gas Fund and could revise administrative practice to deposit this revenue in the OGEF.

The bill eliminates a cap on the OGEF that currently requires any monies in the fund that exceed $1.5 M on November 1 of a year are to revert to the Oil and Gas Fund. The bill leaves in place a requirement that the OGEF must maintain a minimum balance of $500,000 as a surety fund. It also leaves in place a provision that limits the expenses of administering the OGEF to 5% of the money in the Fund. It is not clear how this provision interacts with the provision under the bill that appropriates money in the fund for administration of the oil and gas statutes.

The bill also leaves in place a provision (IC 14-37-5-2) that reduces the fees assessed on existing oil and gas wells by 75% or to an annual minimum of $50, if on November 1 of a year the balance in the OGEF exceeds $1.5 M. The reduced fees remain in effect until the OGEF has a balance under $1 M on November 1 of a subsequent year. Depending on the amount of funds transferred from the Oil and Gas Fund under the provisions of the bill, new deposits of revenue required by the bill, and any additional funding determined to be needed to support the operations for the Division of Oil and Gas, this provision could reduce the revenue associated with the annual well permit fees. Annual well fees are assessed as follows.

Number of Wells Operated	Fee
1	$150
2-5	$300
6-25	$750
26-100	$1,500
> 100	$1,500 plus $15 per well in excess of 100

Annual revenue from well permit fees appears to be stable - collections were about $223,000 in FY 2012.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue, Treasurer of State, Department of Natural Resources, Oil and Gas Division.

Local Agencies Affected:

Information Sources: State Staffing Tables; "Indiana Handbook of Taxes, Revenues, and Appropriations, Fiscal Year 2012" Indiana Legislative Services Agency, Office of Fiscal and Management Analysis; "Tax policy Handbook for State Legislators," Pages 23 and 24, Third Edition, by the Fiscal Affairs Program, National Conference of State Legislators, February 2010; State Auditors data base General Ledger Trial Balance.

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